



# JTS

*Driving The Future  
Of Storage™*

1997

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*Annual Report*



## Corporate Overview

*JTS Corporation designs, manufactures and markets hard disk drives for personal computers. Incorporated in 1994, JTS emerged from the development stage in October 1995 and merged with Atari Corporation, a marketer of interactive multimedia consumer games and related software, on July 30, 1996.*

*Over the past four years, the disk drive industry has achieved a 27% compounded annual growth rate in unit shipments. In 1996, approximately 109 million hard disk drives were shipped, representing a 22% increase over the prior year. While the rate of growth in the disk drive industry generally exceeds the rate of growth in the personal computer industry, these markets are closely correlated. Certain sectors of the personal computer market, such as the notebook market, are growing faster than others. The notebook market represented 13% of all the computers sold in 1996 and has posted a four-year compounded annual growth rate of 29%. The majority of disk drives are sold to the desktop market, which represented 77% of all the computers sold in 1996. The desktop market has posted a four-year compounded annual growth rate of 26%.*

*JTS currently has two disk drive product families in production to address the dynamics of the growing disk drive industry: the 3.0-inch Nordic family for notebook computers and the 3.5-inch Champion family for desktop personal computers. To date, JTS has shipped more than 1,000,000 disk drives, consisting primarily of 3.5-inch drives. JTS began initial unit shipments of the Nordic disk drives to Compaq in the second quarter of fiscal 1997; however, volume shipments of 3.0-inch drives are just commencing. JTS markets its disk drives to systems integrators for incorporation into their computer systems and subsystems, and to original equipment manufacturers. JTS sells its products through a direct sales force in the United States, Europe and Asia, as well as through distributors in the United States, Europe, Latin America and Canada.*

*JTS products are manufactured in Madras, India. The Company employed approximately 6,500 people as of February 2, 1997, the close of fiscal 1997. JTS common stock is traded on the American Stock Exchange under the symbol "JTS."*



## To Our Shareholders:

*We wish to thank you, our shareholders, for your loyal support during our first six months as a public company. JTS Corporation became a public company on July 30, 1996 through its merger with Atari Corporation. At that time, Atari was in the process of downsizing its video game operations and evaluating new strategic opportunities, including potential investments and acquisitions.*

*It determined that a merger with JTS, an emerging disk drive company with innovative products and an experienced management team, was in the best interest of Atari and its shareholders. The merger provided JTS with capital that supported the Company in becoming the electronic data storage industry's fastest growing hard disk drive manufacturer.*



*During the past year, our key objectives were (1) to build our organization and facilities to support volume manufacturing of our disk drives in our Madras, India manufacturing plant, (2) to manufacture high-performance, high-quality disk drives, (3) to gain acceptance among portable computer manufacturers of our 3.0-inch disk drives and (4) to significantly increase our manufacturing volumes quarter over quarter.*

*We are pleased with our accomplishments during the year. We added more than 5,000 new employees, bringing total worldwide headcount to approximately 6,500 at our fiscal year end. Approximately 190 employees, primarily focused on design engineering, are employed in San Jose, California, the Company's headquarters. The majority of our employees, approximately 6,270 people, work in our manufacturing*

*facility in Madras, India. Thirty-seven people are located in our sales offices in Asia, Europe and the United States. The opportunity to participate with industry veterans in building a successful disk drive company has enabled the Company to attract high caliber employees over the past year.*

*We continue to invest in our manufacturing which allows us to deliver higher volumes of disk drives. To date, we have equipped a state-of-the-art 85,000 square foot manufacturing plant in Madras, India. Additional test areas and clean rooms will be added to the manufacturing facility over the next three quarters. By fall, we expect to have 125,000 square feet in use for manufacturing and administrative support in Madras.*

*Our product ramp has been remarkable. To date, the Company has shipped more than 1,000,000 disk drives since the first commercial drive shipped at the end of October 1995. In the first quarter of fiscal 1997, we produced just 8,000 drives per week. Despite financial constraints that required us to hold production flat in the second quarter, we increased production to 17,000 drives per week in the third quarter and 27,000 drives per week in the fourth quarter of fiscal 1997. Today, we are producing approximately 50,000 drives per week.*

*We have greatly expanded the storage capacity points of our product line. During the fourth quarter of fiscal 1996, we shipped 3.5-inch disk drives with storage capacities up to 540 megabytes. One year later, in the fourth quarter of fiscal 1997, we shipped 3.5-inch disk drives with storage capacities up to 3.0 gigabytes and 3.0-inch disk drives with storage capacities up to 2.0 gigabytes. This nearly six-fold increase in storage capacity in such a short period of time demonstrates our commitment to lead the market in technologically advanced product offerings.*

*Most significant to our differentiated position in the marketplace, we introduced the industry's first 3.0-inch hard disk drive to address demand in the portable computing market for lower profiles, greater storage capacity, performance and lower costs. After passing several rigid qualification tests, we were pleased to begin shipment of our 3.0-inch disk drives to Compaq Computer Corporation in the second quarter of fiscal 1997. We are currently shipping our 3.0-inch disk drives to three original equipment manufacturers. While acceptance of the 3.0-inch form factor is increasing, volume shipments of our 3.0-inch disk drives are just commencing. Currently, JTS 3.0-inch disk drives are under evaluation at ten notebook manufacturers.*

*We are particularly excited about our new high performance Champion line of 3.5-inch disk drives, introduced in the first fiscal quarter of 1998, designed for desktop personal computers. We believe the Champion family will enhance our ability to expand our customer base to include original equipment manufacturers for our desktop products.*

*We ended the fiscal year with \$24.7 million in cash, after successfully completing the necessary financing to ramp product shipments and introduce new products. In addition to the financial resources gained from the Atari merger, we completed the sale of convertible preferred stock of \$15 million and \$25 million in November 1996 and January 1997, respectively. In early May, we completed agreements for a working capital line of credit up to \$30 million and a foreign accounts receivable line of credit up to \$25 million. We believe our ability to secure capital provides further evidence of the investment community's continued confidence in JTS.*

*For the fiscal year ended February 2, 1997, we incurred a net loss of \$152.5 million or \$1.81 per share. These results include the operations of Atari only for the first six months of the year (pre-merger) and the combined results of both JTS and Atari for the six months in the second half of the fiscal year. The net loss includes a \$110 million one-time charge associated with the merger. The \$90.5 million in revenue reported for fiscal 1997 includes \$86.0 million of revenue derived from six months of disk drive operations.*

*While we are pleased with our past accomplishments, we recognize that fiscal 1998 will be a critical year for JTS. Our goals in fiscal 1998 are to achieve profitability, strengthen our balance sheet and broaden our customer base. We recognize the importance of rapidly converting potential customers to actual customers. To positively affect our gross margins, we must achieve a richer product mix of 3.0-inch Nordic and 3.5-inch Champion disk drives and continue to manage our manufacturing costs. We also understand the need to continue to exceed the disk drive industry's revenue growth rate, which would enable JTS to capture further market share gains. We remain dedicated to serving the interests of our customers and our shareholders, and want to thank all of our employees, shareholders and customers for their support and confidence.*

*Sincerely,*



David T. Mitchell  
President and Chief Executive Officer  
February 2, 1997



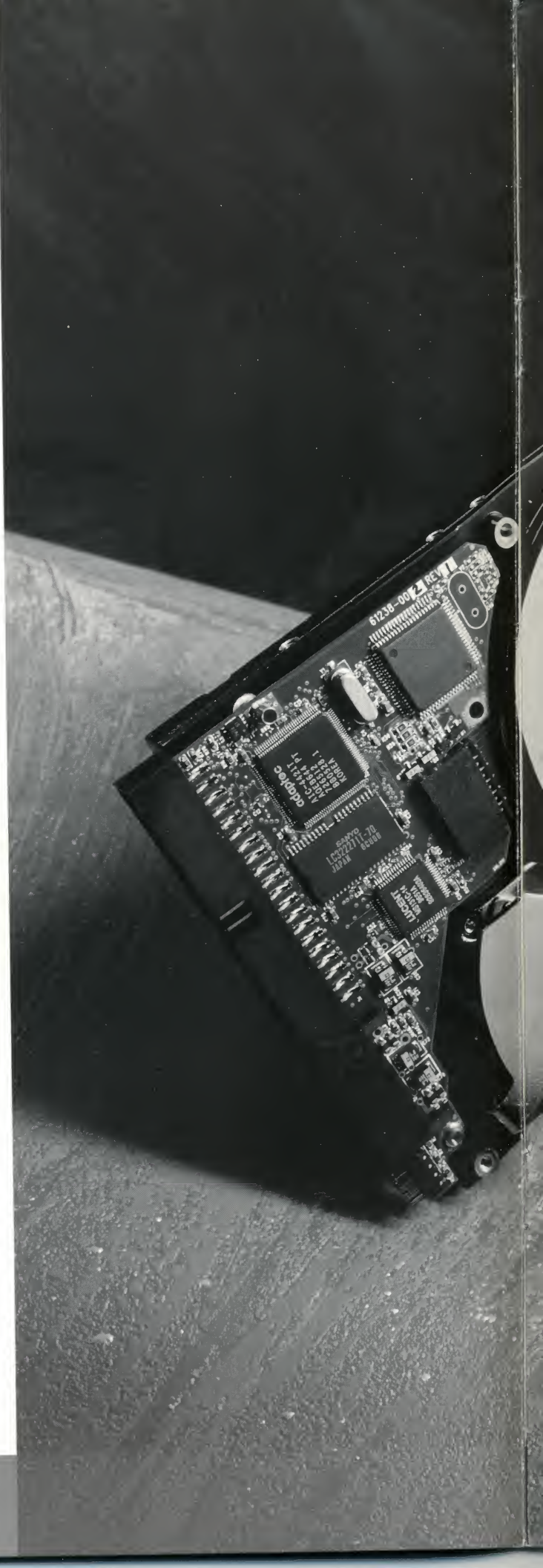
## ***Driving The Future Of Storage***

When considering a personal computer purchase, three questions top most checklists. What central processing unit is installed? How much memory does it have? How big is the hard drive? With answers to these simple questions, decisions are made. At JTS, our business is hard disk drives. Inside every personal computer there is at least one hard disk drive recording information on spinning magnetic platters and enabling information to be retrieved at lightning speed with incredible precision and remarkable accuracy.

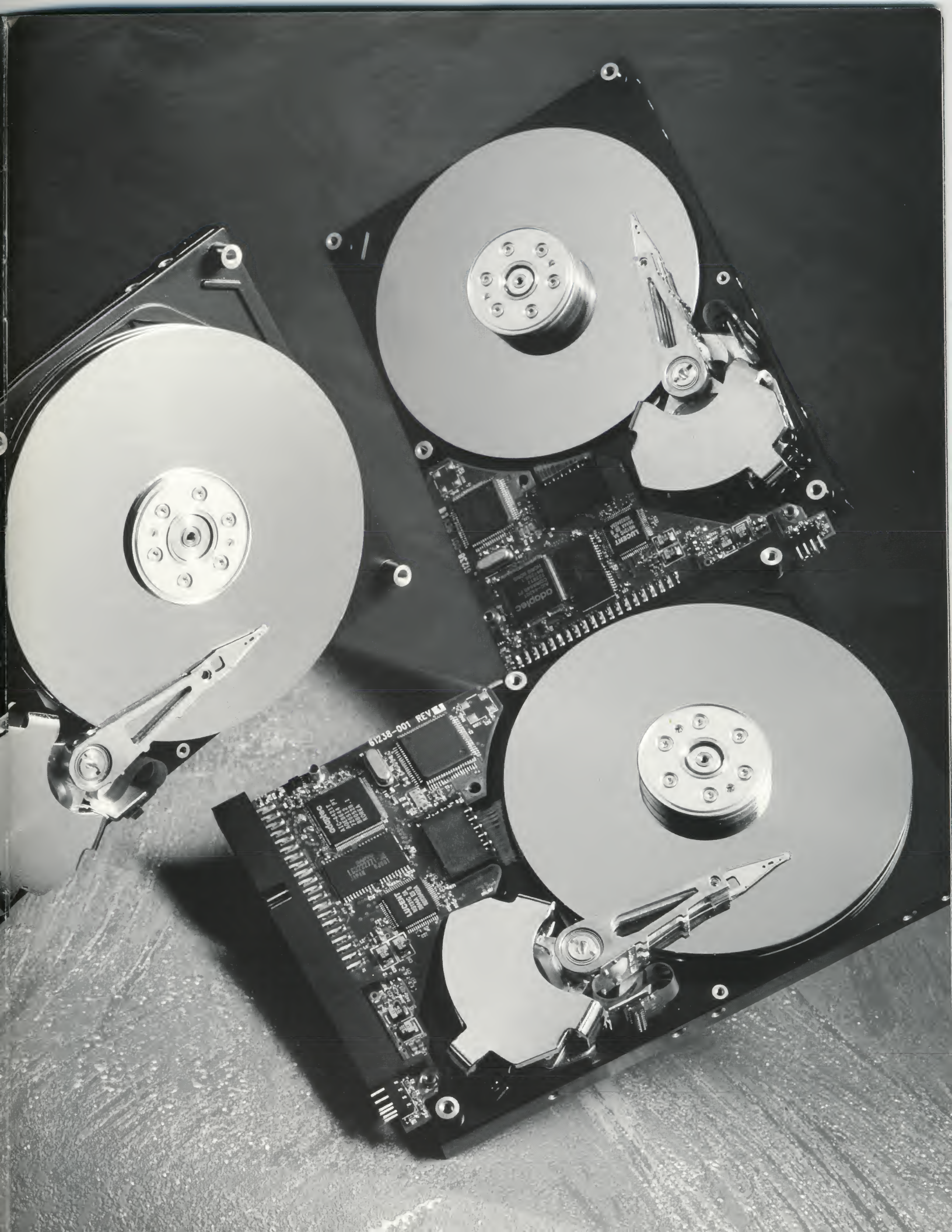
The market for hard disk drives is enormous and growing. In 1996, approximately 109 million hard disk drives were shipped industrywide. These figures have been growing at a rate of 27% per year for the past four years. At the same time, hard disk capacities are increasing, performance is improving and cost per megabyte of storage is coming down.

To meet these demands, storage manufacturers are continually challenged to develop new products. JTS, with its significant engineering talent, low cost manufacturing resources and seasoned management team, is uniquely positioned to meet these challenges today and in the future.

JTS offers hard disk drives in two sizes, or form factors, to meet the needs of desktop and portable personal computer users. Our 3.5-inch Champion family provides storage solutions for desktop PC users offering capacities most demanded by the industry. Our 3.0-inch Nordic family offers an ideal mix of capacity, performance and affordability for portable computers. Both product families are built from the same basic design and use many common components. This approach minimizes inventory requirements, reduces manufacturing costs









and enhances performance. It also allows JTS to simultaneously develop and introduce products for desktop and portable markets.

For example, JTS products incorporate a dual-sided, triangular printed circuit board. A printed circuit board is used to electronically connect integrated circuits, also known as "chips." Unlike competitive solutions, JTS' compact board fits in line with the recording platters of the hard disk instead of under the platters. This unique technology enables JTS to offer one of the slimmest hard disk drives in the industry.

JTS hard disk drives also use Personal Computer Memory Integrated Drive Electronics (PCMIDE) technology. This JTS innovation is a simple connector that enables the drives to be inserted and detached. With PCMIDE, JTS drives can be installed and removed more than 10,000 times while power remains on without losing data. This hot-pluggable capability allows easy integration with third-party products and simple end user upgrades. By enabling removable hard drive applications, this feature also creates new marketing opportunities for JTS products. For example, a single drive can be used on both a home and office system, or multiple drives can be used to archive data for a single computer.

All JTS hard disk drives are completely encapsulated. Encapsulation protects against handling, shields from electrostatic discharge damage, reduces electromagnetic radiation interference to and from the unit, improves drive reliability and provides easier installation. JTS hard disk drives can be handled on all surfaces without touching the circuit board. The result is impressive quality and a mean time between failures of 500,000 hours. In addition to locking in quality, encapsulation gives JTS products a distinctive appearance.

### ***The Champion Family***

With the introduction of the Champion family of 3.5-inch Fast ATA-3 hard disk drives, JTS sets new industry benchmarks for value and quality in the desktop performance market segment. This 3.5-inch offering brings direct competition to industry leading hard disk drive manufacturers. The Champion family is key to expanding JTS' desktop original equipment manufacturer customer base and has replaced the Champ family, first introduced in November 1996.

In comparison to earlier JTS offerings, the Champion family is based on an advanced Adaptec chipset, providing enhanced performance and data integrity. The Champion family strikes the perfect balance between cost and performance, allowing JTS to meet the requirements of a broader range of PC customers.

The Champion family includes drives with capacities of 3.2 gigabytes (GB), 2.5 GB, 2.1 GB and 1.7 GB. Targeted for the Pentium®-based desktop PC market, the Champion family offers high capacity, speed and sustained data flow. With these features, the Champion family is well-suited for typical business applications as well as data-intensive applications such as video-conferencing, games, digital recording and graphic animation.

### ***The Nordic Family***

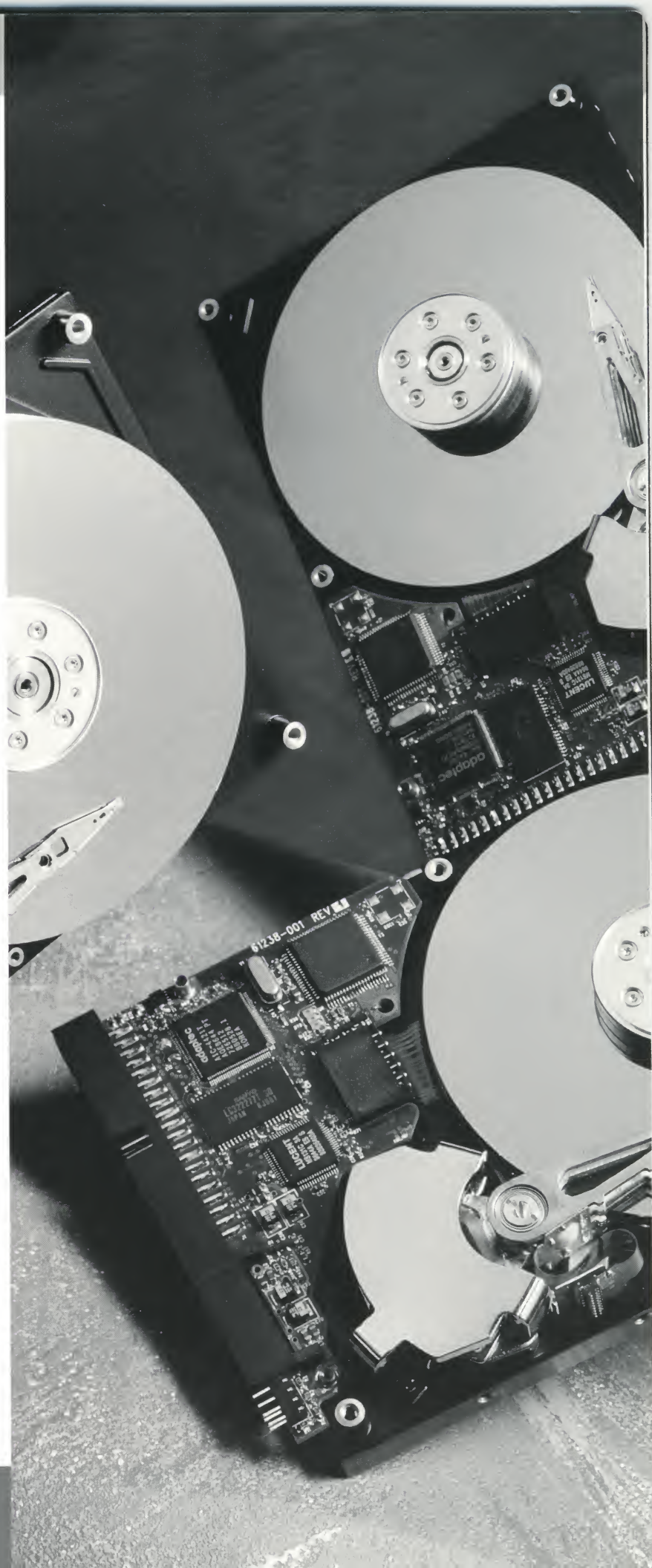
Increasingly, users are relying on a mobile computer as their primary or only computer system. To meet the demands of this growing market segment, JTS introduced the Nordic family of 3.0-inch hard disk drives and has rapidly become the industry's leading manufacturer of 3.0-inch drives. The Nordic family includes 2.0 GB, 1.6 GB and 1.2 GB models with slim 12.7mm profiles, as well as 1.4 GB and 1.0 GB drives with 10.5mm profiles.



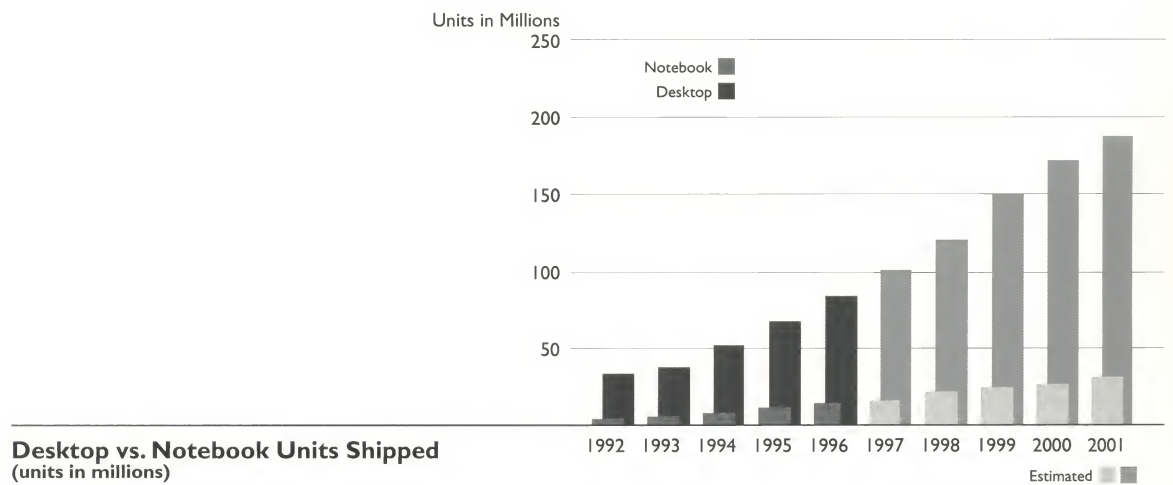
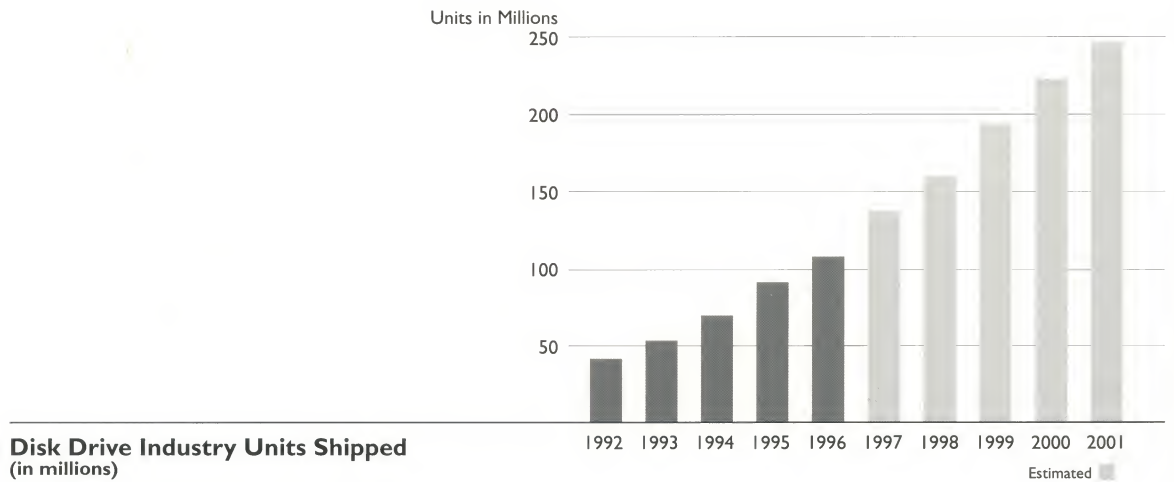
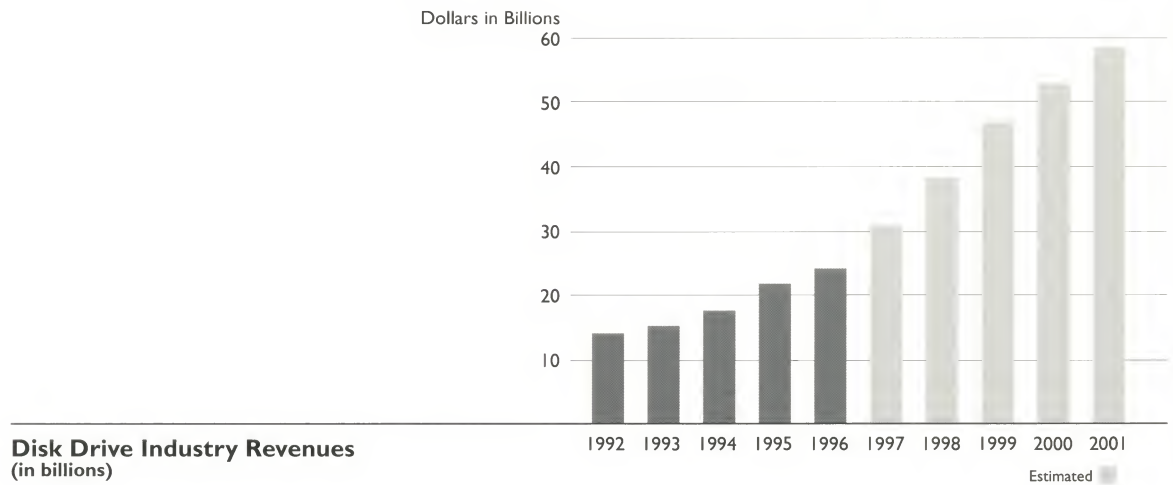
In comparison to 2.5-inch technology traditionally used in portable computers, JTS' Nordic family of 3.0-inch drives offers slimmer profiles and 82 percent more surface area per disk. This design enables higher capacities, better performance and faster time to market. Moreover, Nordic drives consume approximately the same amount of power as 2.5-inch drives, making them ideal for battery-operated applications. In addition, JTS innovations optimize the product for modular multibay configurations, enable hot-pluggable applications, add ruggedness and extend product life. Finally, 3.0-inch hard disk drives offer significant cost savings.

The slim profile of JTS' 3.0-inch hard disk drives makes them ideally suited for ultraportable computers, the lightest-weight, slimmest-profile systems in the notebook class. This segment of the PC market is also the fastest growing, now making up 15% of all portables. Most ultraportables are flat and wide, optimizing screen size and minimizing z-height. The resulting box size challenges system designers to make the most of lenient width requirements within a constrained box height. In the process, 2.5-inch form factor hard disks, requiring multiple platters to achieve needed capacity, will soon be unable to meet design requirements. With height becoming more important than width, manufacturers are moving to 3.0-inch solutions to optimize system features.

Analysts at IDC, a leading industry analyst firm, predict 3.0-inch hard disk drive manufacturers will be first to market with higher capacity hard disk drives, eclipsing 2.5-inch technology in 1997. In 3.0-inch technology, 82 percent greater media surface area and more favorable head dynamics combine to double the capacity available per platter and enable higher surface velocity. To match capacity, 2.5-inch drives will be forced to add platters and height making them too high at 17 and 19mm for the most popular portable computers and providing JTS with a clear advantage.



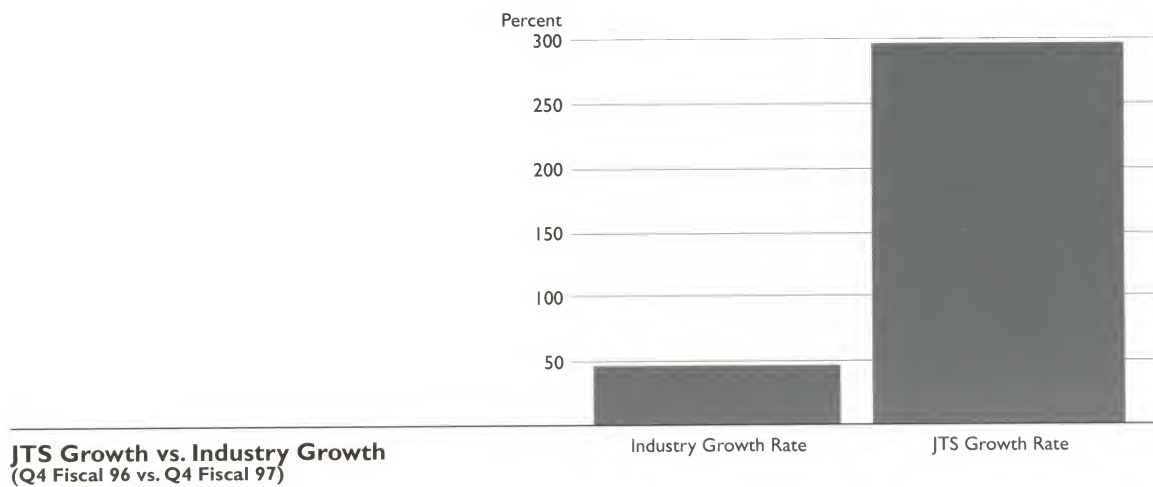
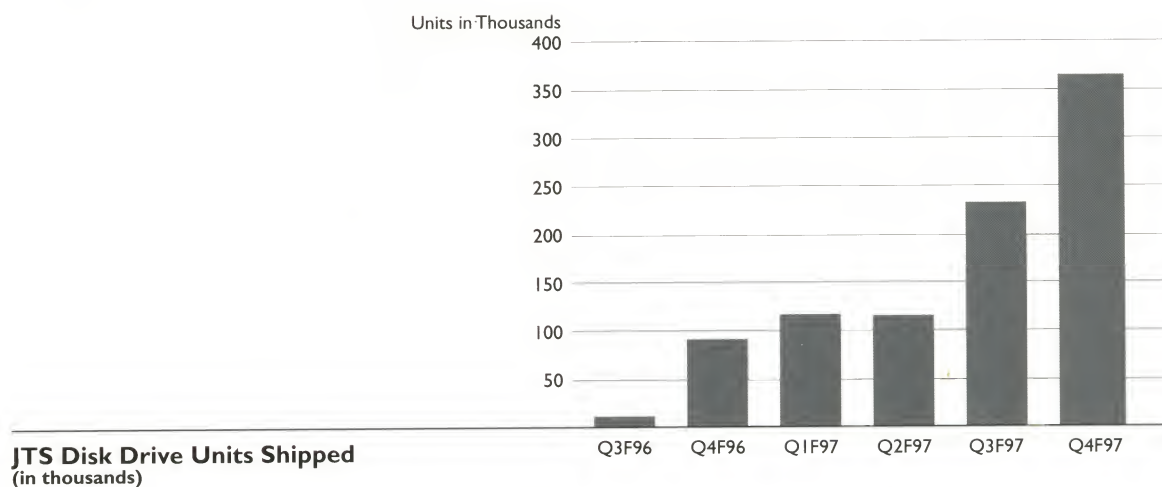
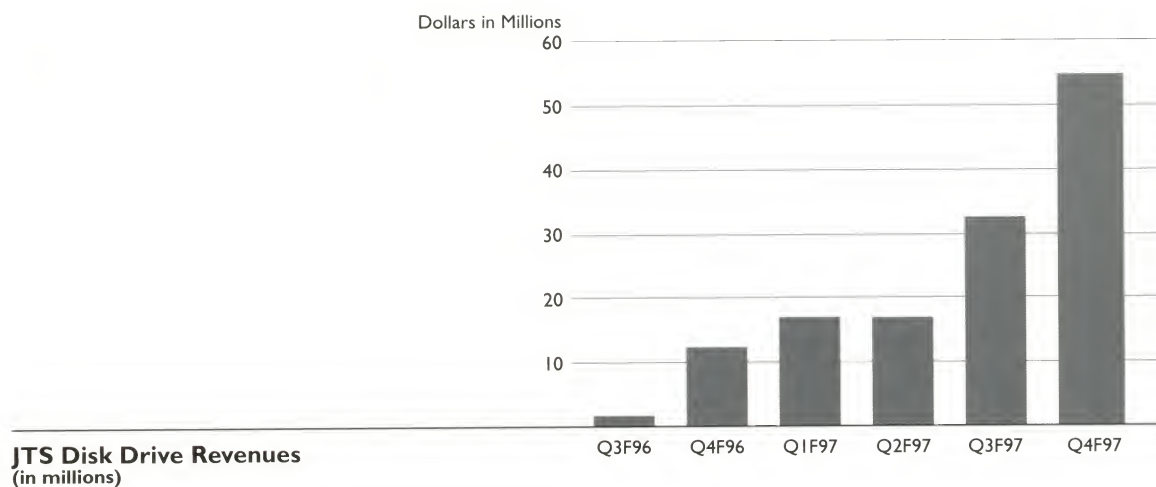
## Disk Drive Industry Growth



Source: IDC, December 1996



## JTS Growth



**Condensed Consolidated Statements of Operations (in thousands)**

	Year Ended February 2, 1997	Year Ended December 31, 1995	Year Ended December 31, 1994
Revenues	\$90,530	\$14,626	\$38,748
Costs and expenses			
Cost of revenues	100,328	44,234	35,200
Acquired in-process research and development	110,012	—	—
Amortization of acquired technology	3,923	—	—
Research and development	12,849	5,410	5,775
Selling, general and administration	13,067	18,647	21,820
Total operating expenses	240,179	68,291	62,795
Operating loss	(149,649)	(53,665)	(24,047)
Settlement of patent litigation	—	—	32,062
Interest and other income, net	(2,846)	3,507	1,379
Income (loss) before extraordinary credit	(152,495)	(50,158)	9,394
Extraordinary credit	—	582	—
Net income (loss)	\$(152,495)	\$(49,576)	\$9,394
Earnings (loss) per common share after extraordinary credit	\$(1.81)	\$(0.78)	\$0.16

**Condensed Consolidated Statements of Cash Flows (in thousands)**

	Year Ended February 2, 1997	Year Ended December 31, 1995	Year Ended December 31, 1994
Cash flows from operating activities			
Net cash provided (used) by operating activities	\$(31,939)	\$(26,561)	\$3,143
Cash flows from investing activities			
Cash acquired in connection with the merger	684	—	—
Loan to JTS Corporation prior to the merger	(30,000)	—	—
Proceeds from sale of marketable securities	16,460	55,703	—
Purchase of marketable securities	—	(9,997)	(50,000)
Purchase of property and equipment	(16,239)	(782)	(1,207)
Proceeds from sale of property and equipment	10,000	29	7,543
Game software development costs and other assets	—	(12,684)	(5,328)
Net cash provided (used) by investing activities	(19,095)	32,269	(48,992)
Cash flows from financing activities			
Extinguishment of debentures	—	(518)	—
Borrowing under line of credit and bank borrowing	7,084	—	—
Repayments of borrowing	—	—	(7,642)
Repayment of capital leases	(3,382)	—	—
Issuance of common stock	1,641	72	53,708
Issuance of preferred stock, net of issuance cost	37,973	—	—
Net cash provided (used) by financing activities	43,316	(446)	46,066
Effect of exchange rate changes on cash and cash equivalents	694	1,087	(684)
Net increase (decrease) in cash and cash equivalents	(7,024)	6,349	(467)
Cash and cash equivalents at the beginning of period	31,790	22,592	23,059
Cash and cash equivalents at the end of period	\$24,766	\$28,941	\$22,592



**Condensed Consolidated Balance Sheets (in thousands)**

	<b>As of February 2, 1997</b>	<b>As of December 31, 1995</b>
Assets		
Current assets:		
Cash and cash equivalents	\$24,766	\$28,941
Marketable securities	—	21,649
Accounts receivable, net	21,445	2,468
Inventories	17,750	10,934
Other current assets	2,341	1,134
Total current assets	66,302	65,126
Property and equipment, net	27,674	11,139
Intangible and other assets, net	36,741	1,304
Total assets	<u>\$130,717</u>	<u>\$77,569</u>
Liabilities and Shareholders' Equity		
Current liabilities	<u>\$65,230</u>	<u>\$10,042</u>
Long-term obligations	<u>53,081</u>	<u>42,354</u>
Shareholders' equity:		
Common stock, preferred stock and paid-in capital	347,556	203,271
Accumulated deficit	(335,150)	(178,098)
Total shareholders' equity	12,406	25,173
Total liabilities and shareholders' equity	<u>\$130,717</u>	<u>\$77,569</u>

**REPORT OF INDEPENDENT PUBLIC ACCOUNTS**

To the Shareholders and Board of Directors of JTS Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of JTS Corporation and subsidiaries as of February 2, 1997 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended, appearing in JTS Corporation's Form 10-K for the year ended February 2, 1997 (not presented herein). In our report dated April 21, 1997, also appearing in that Form 10-K, we expressed an unqualified opinion on those consolidated financial statements. The financial statements of Atari Corporation as of December 31, 1995, were audited by other auditors whose report dated March 1, 1996, expressed an unqualified opinion on those statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 2, 1997 and the related condensed consolidated statements of operations and cash flows for the year ended February 2, 1997 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.



San Jose, California  
April 21, 1997

## Company Information

### Officers of JTS Corporation

David T. Mitchell  
*President and Chief Executive Officer*

Rick R. Brantmeyer  
*Executive Vice President,  
Sales and Marketing*

Amit Chokshi  
*Executive Vice President,  
Worldwide Materials*

Steven L. Kaczeus  
*Chief Technical Officer*

W. Virginia Walker  
*Executive Vice President, Finance and  
Administration, Chief Financial Officer  
and Secretary*

Kenneth D. Wing  
*Executive Vice President,  
Chief Operating Officer*

### Board of Directors

Sirjang L. Tandon  
*Chairman of the Board*

Jean DeLeage  
*Director*

Roger Johnson  
*Director*

David T. Mitchell  
*President and Chief Executive Officer*

Lip-Bu Tan  
*Director*

Jack Tramiel  
*Director*

### Corporate Headquarters

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### Legal Counsel

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3000 El Camino Real  
Palo Alto, CA 94306-2155

### Certified Public Accountants

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Suite 1500  
RiverPark Tower  
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San Jose, CA 95110-2710

### Transfer Agent and Registrar

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016  
Telephone: (800) 368-5948

### Investor Relations

JTS Corporation welcomes inquiries from shareholders and other interested investors. Additional copies of this report or other financial matter will be furnished without charge upon request to:

Investor Relations  
JTS Corporation  
166 Baypointe Parkway  
San Jose, CA 95134  
(408) 468-1621

### Stock Exchange Listing

JTS Corporation common stock is listed on the American Stock Exchange and trades under the symbol "JTS."

### World Wide Web Site

For current information on JTS Corporation, visit our worldwide web site at [www.jtscorp.com](http://www.jtscorp.com)

### Manufacturing Facility

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91-44-236-5200

### Domestic Sales Offices

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(408) 468-1800

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Of Storage™*

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